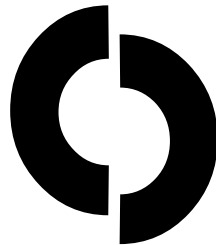


OFFICE OF THE COMPTROLLER OF THE CURRENCY



YEAR 2000 STATUS

RESULTS FOR THIRD QUARTER 1999 (JULY - SEPTEMBER 1999)

Issued October 29, 1999

OCC REPORT TO CONGRESS ON YEAR 2000 ACTIVITIES THIRD QUARTER 1999

EXECUTIVE SUMMARY

- C National banks have made excellent progress in preparing for the Year 2000. As of September 30, 1999, 99.8 percent of 2,644 institutions supervised by the OCC received the highest supervisory rating, "satisfactory." Only six institutions received less than "satisfactory" ratings. The OCC is using a variety of enforcement tools to effect prompt remedial action by the few financial institutions that lag behind.
- C The OCC has established an extensive fourth quarter supervision program to monitor the progress of individual institutions to ensure that all necessary changes are made in preparing for the Year 2000.
- C In September, the OCC and the other FFIEC agencies issued guidance on temporary balance sheet growth due to unusual market responses to the century date change. This growth could occur if a banking organization were to receive unusually large deposit inflows or if corporate borrowers were to make unusual draws on their existing lines of credit, or request new lines, in response to a perceived need for extra liquidity during the century date change period.
- C During the third quarter, the OCC and the other FFIEC agencies stepped up efforts to educate the public about the industry's Year 2000 progress and our role in supervising institutions. The FFIEC agencies worked together to develop messages about the industry's progress and provide advice to bank customers. We also completed and distributed a video that explains what banks and regulators have done to address the Year 2000 issue. In addition to the video, the OCC produced and distributed a brochure that highlights the industry's progress and the important things bank customers should know about the Year 2000. At the same time, we initiated a series of public education events, featuring FFIEC principals.
- C The OCC, in conjunction with the other FFIEC agencies, has developed contingency plans for late December 1999 through early January 2000. As part of our contingency planning efforts, the OCC is working closely with the President's Council on Year 2000 Conversion and will staff the Council's Information Coordination Center during the century date change rollover period.
- C The OCC completed Year 2000 renovations and validation of its mission-critical systems by November 1998 and is working closely with the Treasury Department and the President's Council to ensure that its internal systems will work properly during the century date change (CDC) rollover.

EXAMINATIONS OF FINANCIAL INSTITUTIONS

The OCC's comprehensive Year 2000 supervision program, which includes on-site examinations and off-site reviews, examiner training, quality assurance procedures, and outreach programs, has been instrumental in ensuring that national banks address Year 2000 concerns and take appropriate corrective actions well in advance of the century date change.

OCC examinations through September 30, 1999, show that 99.8 percent of 2,644 institutions supervised by the OCC (national banks, service providers, software vendors, Federal branches, and credit card banks) were rated "satisfactory;" 0.2 percent (5 institutions) received "needs improvement" ratings; and 1 institution received an "unsatisfactory" rating. The third quarter ratings are slightly better than the second quarter ratings, in which 99.1 percent of institutions were rated "satisfactory," 0.8 percent (20 institutions) were rated "needs improvement," and 0.1 percent (three institutions) were rated "unsatisfactory." Table 1 provides a summary of Year 2000 ratings for national banks, Federal branches and credit card banks by asset size.

Table 1
Year 2000 Summary Evaluations
By Asset Size
September 30, 1999

<i>Evaluation</i>	<i><\$100MM</i>	<i>\$100MM to \$500MM</i>	<i>\$500MM to \$1B</i>	<i>Over \$1B</i>	<i>Overall Percent (# Institutions)</i>
<i>Satisfactory</i>	99.7%	99.8%	100%	100%	99.8%
<i>Needs Improvement</i>	0.2%	0.2%	0%	0%	0.2%
<i>Unsatisfactory</i>	0.1%	0%	0%	0%	<0.01%

Source: OCC Year 2000 Database

Service Providers and Software Vendors. The ratings for service providers and software vendors have not changed significantly since the second quarter.¹ Ninety-eight percent (99 institutions) of OCC-supervised service providers and software vendors received our highest supervision rating of "satisfactory." Only two percent of the service providers and software vendors (two institutions)

¹ The OCC and the other FFIEC agencies have been examining several hundred service providers and software vendors that provide mission-critical services and products to depository institutions. The OCC is the lead agency in examining five service providers under the Multi-Regional Data Processing Servicers (MDPS) program and four software vendors under the Shared Application Software Review (SASR) program. In addition, the OCC supervises and examines 34 independent data centers (IDCs) used by national banks and 58 banks and affiliated servicers that provide data processing services to non-affiliated financial institutions.

received “needs improvement” ratings and none received “unsatisfactory” ratings. The OCC is conducting follow-up examinations of these two institutions to confirm that deficiencies are addressed adequately which may result in an upgrade in the rating. Table 2 provides a summary of third quarter Year 2000 evaluations of OCC-supervised service providers and software companies.

Table 2
Year 2000 Summary Evaluations
Service Providers and Software Vendors
September 30, 1999

<i>Summary Evaluation</i>	<i>OCC Supervised MDPS</i>	<i>OCC Supervised SASRs</i>	<i>OCC Supervised IDCs</i>	<i>OCC Supervised Institutions serving Non-Affiliated Institutions</i>	<i>Total</i>
<i>Satisfactory</i>	5	4	32	58	99
<i>Needs Improvement</i>	0	0	2	0	2
<i>Unsatisfactory</i>	0	0	0	0	0
<i>Total</i>	5	4	34	58	101

Source: OCC Year 2000 Database

The OCC and the other FFIEC agencies continue to gather information during examinations to assess the exposure of banks to service providers and software vendors that lag behind. As part of our contingency planning efforts, we also are assessing the capacity of highly-rated service providers and software vendors to absorb clients of low-rated service providers in the unlikely event problems arise.

Customer Risk Assessment. All national banks implemented a due diligence process to assess Year 2000 customer risk. As of September 30, 1999, 12 percent of national banks noted that Y2K-related credit problems could result in some Y2K-related defaults. However, only 0.5 percent of their entire portfolio of customers would be affected by Y2K-related credit problems. In addition, only 35 national banks (1.3 percent) have reduced credit lines out of concern that their customers had not adequately addressed Y2K risks.

Enforcement. The OCC has used a variety of enforcement tools to effect prompt remedial action by supervised institutions that lag behind. Overall, the OCC believes that the enforcement actions it has taken to date have been very successful in prompting lagging institutions to comply with FFIEC and OCC Year 2000 policy. As of September 30, 1999, the OCC had entered into four Safety and Soundness Orders, two Cease and Desist Orders, nine Formal Agreements, 12 Memoranda of Understanding, 10 Commitment Letters, and 382 Year 2000 Supervisory Directives. (See the second quarter report for a summary of these different types of enforcement actions). Seventy-three institutions

are operating under approved Safety and Soundness Plans.

The FFIEC agencies have taken enforcement actions against three independent service providers that provide data processing services to hundreds of federally regulated financial institutions. Each of these three service providers committed, by a date certain, to correct Year 2000 deficiencies within the systems it uses to support the operations of financial institution clients, including national banks.

YEAR 2000 SUPERVISION PROGRAM

The OCC has completed at least three on-site Year 2000 examinations of all OCC-supervised institutions since 1997.² The OCC completed additional Year 2000 on-site examinations during the third quarter for a small number of institutions that continued to lag behind, banks in the OCC's large bank program, institutions that completed conversions of mission-critical systems during the quarter, and OCC-supervised service providers and software vendors. In addition, the OCC conducted quarterly reviews of each national bank to monitor bank preparations and follow up on any outstanding supervisory issues. During these examinations and quarterly reviews examiners assessed customer awareness efforts, liquidity planning and cash management strategies. Examiners also encouraged national banks to establish procedures to ensure that computer systems remain Year 2000 ready.

In late July and October 1999, the OCC sent letters to national bank CEOs outlining the Year 2000 supervisory program for the remainder of 1999 and the century rollover period.

On August 24, 1999, the OCC hosted a conference with representatives of 22 ATM companies and the other FFIEC agencies to discuss supervisory concerns and to share information on testing, contingency planning and customer communication issues. The regulators noted that customers and the media are likely to pay particular attention to ATM readiness as a bellwether of the overall readiness of the financial services industry. ATM companies noted that they have thoroughly tested their systems and stated that they are Year 2000 ready.

On September 28, the OCC and the other FFIEC agencies issued guidance on temporary balance sheet growth due to unusual market responses to the century date change. This growth could occur if a banking organization were to receive unusually large deposit inflows or if corporate borrowers make unusual draws on their existing lines of credit, or request new lines, in response to a perceived need for

²The first on-site examination occurred between July 1997 and June 1998 using the FFIEC's June 1997 Year 2000 guidance. In June 1998, the FFIEC adopted the Phase II Workprogram. The Phase II examination procedures focus primarily on the validation (testing) and implementation phases of the Year 2000 project plans and contingency plans. Using the Phase II procedures, the OCC completed two onsite examinations of all national banks and Federal branches and agencies by July 15, 1999. The first round of these examinations, which was completed in January 1999, focused primarily on determining if each institution had an adequate test plan in place prior to commencing its testing program. The second round of examinations concentrated on evaluating testing results, business resumption contingency plans, and customer risk assessments and customer awareness programs.

extra liquidity during the century date change period. Some organizations that experience significant Year 2000-related asset growth may, despite prudent balance sheet management techniques, also experience a temporary decline in their regulatory capital ratios as a result of responding to customers' needs over the century date change period. Such a decline has the potential to result in certain consequences for the organization under federal banking statutes and regulations. The OCC urges banks to contact the OCC to discuss options to address these issues. In assessing supervisory options, the OCC will consider whether the institution exercises prudent and responsible measures to manage its balance sheet, maintains a fundamentally sound financial condition, and provides evidence that any drop in capital ratios is temporary.

In early October, we sent additional guidance to examiners concerning our fourth quarter supervisory activities, century date change event management activities and quality assurance efforts. Fourth quarter supervisory activities will include monitoring of business resumption contingency plans, liquidity funding plans, customer awareness efforts, and capital and credit risk. We will test our processes for the century date change activities on November 4, 1999.

In mid-October, the FFIEC agencies sent a letter to service providers and software vendors that provide services to depository institutions. This letter outlines steps the FFIEC agencies plan to take during the century date change and agency expectations for the remainder of 1999 and early 2000.

PUBLIC EDUCATION

The OCC and the other federal financial institution regulators believe that the most effective means of assuring the public about the industry's readiness for the century date change is to raise public awareness about Year 2000 issues and to explain how the industry and the regulators are addressing them. To maintain public confidence, the OCC and the other federal financial regulators have urged institutions to provide accurate and complete information to their customers about the Year 2000 remediation efforts and the progress the industry is making to address Year 2000 issues. In recent months, the OCC has observed that banks have increased Year 2000 customer awareness efforts. For example, over 60 percent of OCC-supervised institutions have provided disclosures to customers either monthly or quarterly.

The FFIEC agencies also stepped up efforts to educate the general public on the industry's and regulators' efforts through a number of ways.

Video and Brochure. The OCC and the other federal financial institution regulators developed and distributed *Year 2000: The Bottom Line* in September. This six-minute video on the financial services industry's readiness for the Year 2000 features top-ranking officials of each agency explaining to the general public what the Year 2000 issue is and the steps taken by banks and bank regulators to address the issue. The video also speaks directly to customers about steps they can take to be ready for the Year 2000 and warns about Year 2000 scams. We are encouraging banks to display the video in the

bank lobby and at community outreach events. In addition to the video, the OCC produced and distributed a brochure that highlights the industry's progress and the important things bank customers should know about the Year 2000 issue. That brochure, *Banks are Ready: Meeting the Y2K Challenge*, notes that 99 percent of all national banks finished testing critical computer systems by mid-year and received our highest supervisory rating. It also advises customers of the risks of holding large amounts of cash and points out that the safest place for their money is in a federally-insured financial institution.

Press Conferences. The Comptroller and heads of the other FFIEC agencies held a press conference at the National Press Club in Washington, DC, on September 16 to report on the industry's progress in addressing the Year 2000 issue. The Comptroller and other FFIEC principals met with the editorial board of *USA Today* on September 16. He also participated in a press conference and other press events (e.g., talk show appearances, briefings for print/magazine media, meetings with editorial boards) on September 21 in New York.

Newspaper Article. On September 28, Comptroller Hawke sent a letter to 100 newspapers outlining the OCC and banking industry's efforts to be ready for the Year 2000 and to counter false claims about the banking industry's Year 2000 readiness. The letter has appeared in newspapers throughout the country.

Outreach. Through September 30, 1999, OCC representatives had participated in dozens of outreach meetings with various groups, including bankers and other representatives from the financial community. In conjunction with the other FFIEC agencies, we hold regular meetings to discuss Year 2000 issues with representatives from the Bank Administration Institute, American Bankers Association, Independent Community Bankers of America, and other financial institution trade associations. The OCC also has worked with other FFIEC agencies to train foreign bank supervisors.

Hot Line. Callers to the OCC's Customer Assistance hot line (1 800 613-6743) receive helpful information from our customer assistance specialists. During the third quarter, we provided additional training for our customer assistance specialists and provided additional information to send to individuals requesting information.

INTERNATIONAL ACTIVITIES

Today's global financial markets require cooperation and close coordination among financial sector supervisors and central banks, both within countries (including inside the United States) and across borders. Coordination will be especially important in the remaining months of 1999 and early 2000, as financial organizations and markets deal with the Year 2000 challenge.

Financial market authorities and key market participants in major countries are making excellent

progress in preparing for the century date change. The OCC continues to coordinate actively with global financial market authorities and key public and private sector groups on international Year 2000 event management and communications plans for the Year 2000 rollover period. Initiatives include the Information Coordination Center of the President's Council on Year 2000 Conversion, the Joint Year 2000 Council's Market Authorities Communications Services (MACS), the Basel Committee on Banking Supervision's Year 2000 Task Force, and the event management program of the Global 2000 Co-ordinating Group. Through these coordination efforts, the U.S. financial market supervisors, together with our key international counterparts, are defining the principles and conventions for cross-border multilateral communications among the global supervisory community over the Year 2000 rollover period.

CONTINGENCY PLANNING

While the OCC is confident that the national banking industry will pass the century date change with flying colors, an important aspect of our job as regulators is to make contingency plans no matter how remote the likelihood that we will need to implement them. In that spirit, we have developed contingency plans to respond to potential problems and to make sure consumers will maintain access to their money and services. We anticipate that as we get closer to the end of 1999, rumors and scare stories will increase. Consequently, we will continue to urge bank customers to contact their bank to help them sort fact from fiction.

Contingency Planning Working Group. The OCC chairs the FFIEC Year 2000 Contingency Planning Working Group to coordinate a variety of Year 2000-related risks. Since its creation in October 1998, 10 subgroups have met monthly to develop recommendations and plans to better manage and mitigate potential Year 2000 risks. The groups have developed contingency plans to address issues associated with communications, liquidity, infrastructure, key players, international payment systems, fraud, non-viable and viable institutions, service providers and software vendors, sharing supervisory resources, and event management.

OCC and FFIEC Event Management. The OCC, in conjunction with other FFIEC agencies, has developed an extensive event management plan for the CDC period. From December 20, 1999 through January 4, 2000, the OCC will contact every institution it supervises a minimum of three times to ensure that they identify significant operating, funding, or customer problems on a timely basis. The first contact will occur between December 20, 1999 and December 30, 1999. This contact will provide an update on the institution's operating performance and identify any adverse funding or customer trends prior to the actual CDC rollover. The second CDC contact will take place concurrently with bank management's initial check to see if the bank's computer systems and building facilities operate properly on January 1, 2000. We will contact banks that do not plan to staff their buildings during the CDC weekend on the morning of January 3, 2000. The third CDC contact will be made after the first day's processing cycle, typically January 4, 2000, although some banks may complete their first day of processing on or before that date.

While these three contacts are the minimum number planned, additional contacts may be appropriate given perceived risk or complexity of the institution. For example, the OCC's strategy for the largest national banks calls for virtually continuous supervision during the CDC weekend. In addition, we also plan to monitor ATM switch companies and credit card processors closely on January 1, 2000. The OCC plans to have bank examiners on-site at approximately 50 institutions during the CDC weekend. Most of our other CDC activities will be conducted by phone.

CDC Supervision Coordination. As part of our contingency planning efforts, the OCC is working closely with other federal bank regulators to implement a centralized process of collecting and exchanging supervisory information during the CDC period. To minimize duplication and burden by coordinating supervision and non-supervisory information requests, the federal bank regulators recently established procedures for supervising institutions with multiple regulators. During the CDC, the lead regulator will be responsible for coordinating supervisory activities and coordinating requests for information. Accordingly, the lead regulator will hold coordination meetings with appropriate regulators and Federal Reserve Bank operations staff. A representative of the bank will be invited to attend and participate in all meetings.

Information Coordination Center. The OCC, along with the other FFIEC agencies, will participate in Information Coordination Center (ICC) of the President's Council on Year 2000 Conversion. The OCC plans to staff the ICC from December 28, 1999 through January 5, 2000.

Day One Plan. As an additional precautionary measure and to ensure the OCC is prepared for contingencies, the OCC developed a "Day One" plan. The "Day One" plan is a risk mitigation process that will focus on the time period immediately before, during, and after the century rollover weekend. The purpose of the plan is to assure that rollover to Year 2000 does not disrupt OCC Core Business Processes. The focus of the OCC's Day One plan is on mission-critical systems, office locations, telecommunications and infrastructure disruptions. OCC staff will monitor the status of OCC operations, detect problems, identify solutions, and offer recommendations to management for corrective action and implementation of contingency plans, if necessary. The OCC will conduct internal dry run tests of our "Day One" plan and will participate in all Treasury Department tests. During the rollover weekend, the OCC will report on the status of our internal systems to the Treasury Department and the ICC.

OCC INTERNAL REMEDIATION EFFORTS

The OCC renovated, validated and implemented all mission-critical systems by November 30, 1998. To create an additional level of safety and to ensure that connected systems function properly, the OCC completed a simultaneous agency-wide test in March 1999. The test included multiple internal mission-critical systems, external parties, and infrastructure providers. The test confirmed that the OCC's entire computing environment can operate properly in the next century.

The OCC completed two of three contingency testing cycles of mission-critical systems in February and July 1999. A third testing cycle is scheduled for November/December 1999. OCC business unit representatives also reviewed and updated system contingency plans in December 1998 and June 1999. The OCC developed and tested business resumption contingency plans for the OCC's five core business processes: bank supervision policies and procedures, strategic planning and systemic risk management, individual bank supervision, enforcement, and corporate activities. The OCC established strict procedures to ensure any modifications to systems will not affect their Year 2000-readiness.